



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF VAT COMPLIANCE FACTORS: IN THE CASE
OF ADDIS ABABA NO.2. MEDIUM TAX PAYERS BRANCH
OFFICE**

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**JANUARY, 2018
ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY,
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DECLARATION

I, the undersigned, declare that this thesis is my research work, prepared under the guidance of **Asmamaw (Assistance Prof.)**. All sources of materials used for the thesis have been duly acknowledged. I confirm that thesis prepared on assessment of VAT compliance factors on the same topic earlier has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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TABLE OF CONTENTS

Contents	Pages
ACKNOWLEDGEMENTS	i
TABLE OF CONTENTS	ii
LIST OF TABLES	v
LIST OF FIGURES	vi
LIST OF ABBREVIATIONS AND ACRONYMS	vii
ABSTRACT	viii
CHAPTER ONE	1
Introduction.....	1
1.1. Background of the Study.....	1
1.1.1 Background of the Organization.....	2
1.2 Statement of the Problems.....	4
1.3 Research Questions	5
1.4 Research Objective.....	6
1.4.1 General Objective	6
1.4.2 Specific Objectives	6
1.5 Significance of the Study	6
1.6 Scope of the Study.....	6
1.6 Organization of the Study	7
CHAPTER TWO	8
LITERATURE REVIEW	8
2.1. Introduction	8
2.2 Theoretical Literature Review.....	8

2.2.1 Fiscal Psychology Theory	8
2.2.2. The Economic Deterrence Theory.....	9
2.2.3 Ability to Pay Theory	9
2.3. Factors Influencing VAT Compliance	10
2.3.1. Tax Understanding and Taxpayer Knowledge	10
2.3.2. Cost of Tax Compliance	11
2.3.3. Taxpayer Perception and Attitudes.....	12
2.3.4. Tax Administration.....	13
2.3.5. VAT law and regulation	14
2.4 Empirical Review	15
2.5 Conceptual Frame Work	17
CHAPTER THREE	18
RESEARCH METHODOLOGY	18
3.1 Introduction	18
3.2. Research Design.....	18
3.3. Target Population	18
3.4. Sample Size and Sampling Procedure.....	19
3.5. Data Collection and Sources of Data	19
3.5.1. Validity of the Research Instrument.....	19
3.5.2. Data Analysis and Presentations.....	20
CHAPTER FOUR.....	21
DATA PRESENTATION, ANALYSIS AND INTERPRETATION	21
4.1 Introduction	21
4.2 Response Rate	21

4.3 Demographic Information	21
4.4.1 Administrative capacity of branch office	23
4.4.2 The VAT Law and Regulation	25
4.4.3 Level of Tax Understanding and Knowledge	27
4.4.4 Tax Compliance Costs	29
4.4.5 Taxpayer Perception and Attitudes.....	31
CHAPTER FIVE	33
SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATION	33
5.1 Summary of Finding.....	33
5.2 Conclusion.....	35
5.3 Recommendations	37
REFERENCE	
APPENDIX	

LIST OF TABLES

	Pages
Table 1: The Respondents' Demographic Information	22
Table 2: Administrative capacity of branch office	23
Table 3: The VAT law and regulation	25
Table 4: Level of Tax Understanding and Knowledge	28
Table 5: Tax Compliance Costs	30
Table 6: Taxpayer Perception and Attitudes.....	31

LIST OF FIGURES

	Pages
Figure 1: Demonstration of the dependent and independent variable	17

LIST OF ABBREVIATIONS AND ACRONYMS

CRM–	Cash Register Machine
ERCA –	Ethiopian Revenues and Customs Authority
IMF –	International Monetary Fund
MOFEC –	Ministry of Finance and Economic Cooperation
VAT –	Value Added tax
WTO –	World Trade Organization

ABSTRACT

The general objective of this research was to assess the VAT compliance factors the Addis Ababa No. 2 Medium taxpayer branch office. thus it is a descriptive type of research and quantitative data analysis techniques were used. Primary data were obtained with the help of questionnaire from VAT tax payers. Random sampling techniques were used to select appropriate and representative sample size from VAT registrants as results from 2,500 VAT registrants 345 samples were selected. From this 345 samples 266 questionnaires was returned and analysis took place which have a response rate of 77% rated as very good. From the outcome of the study the major determinants (factors) of VAT compliance are Administrative capacity, Compliance cost, perception and awareness, understanding and knowledge, VAT law and regulation affects the VAT compliance of the branch office. Concerning the administrative capacity of the branch office the study found that the branch office administrative are incapable for effective VAT collection in terms of human resource with sufficient technically competency in executing their duties and responsibilities, and there is inadequate control measures of fighting corruptions and embezzlements in branch office administration system. And also the studies found that proper utilization of collected revenue by the government will motivate taxpayers to voluntary comply. If taxpayers perceive the government as corrupt or not utilizing collected revenue well, they might feel betrayed and attempt to evade. To create more awareness and knowledge among the taxpayers the following should be considered; A multi-media approach to sensitization should be adopted to get taxpayers informed. Administrators should mainly communicate through meetings, seminars, radio programs, televisions, taxpayer visits and posters should as well be used to reach all eligible taxpayers and get them to appreciate the importance of VAT and been registered under the VAT law. In addition the study also recommends the office should recruit skilled manpower, multi-media approach to create awareness, prepare or design a reward for those business people who are performing highest VAT compliance.

Key words: VAT, VAT collection performance, VAT compliance

CHAPTER ONE

Introduction

1.1. Background of the Study

The federal democratic of Ethiopia (FDRE) has adopted VAT in to its tax system in 2003. It has been introduced on January 1, 2003, replacing the former sales tax system. The VAT proclamation no.285/2002 (VAT law) has been ratified by the house of peoples' Representatives six months before VAT implementation (July, 2002). This VAT proclamation has thirteen sections (13) and (66) articles. In December, 2002 the VAT regulation no. 79/2002 has also been issued by the council of Ministers pursuant to the value added tax proclamation for the implementation and regulation of VAT. (Redae and Sekhon, 2015).

VAT is the principal source of revenue for the Ethiopian government as the same to other VAT implementing countries. As Wollela`s (2011) study on operating costs and compliance indicate, VAT has a significant role in the revenue system of the Ethiopian government. To sustain VAT's revenue role in the government's finance, it is crucial to ensure that the revenue generated by this tax is raised as efficiently as possible.

In order to make up sufficient revenue from VAT it needs efficient and effective tax administration. However, developing countries like Ethiopia, where there is a large number of informal sector, low tax moral, rampant evasion, and total distrust between tax administration and taxpayers may not make the tax collection successful. One of the reasons is lack of simplified procedures. In VAT administration, there should be a concern for small businesses because as compared to the burden of VAT administration on large businesses, the cost of administering VAT is proportionally high for small businesses. Tax operating costs are costs incurred by the private and public sectors while the tax system is in operation. Tax operating costs encompass both administrative and fulfillment costs signifying broadly the public and private sectors costs respectively. A high level of tax compliance costs may discourage voluntary compliance. On the other

hand, very low tax administrative costs may imply that tax authorities are not equipped with the necessary human and physical resources which, in turn, may impact on the capability of tax administrations to carry out the responsibilities entrusted to them. The VAT administration is poor due to many factors, particularly incapacity of tax authorities to implement the attributes of the tax to practice. Regarding this, this study was attempted to assess VAT compliance factors; in the case of Addis Ababa No. 2 branch office.

1.1.1 Background of the Organization

The Ethiopian Revenues and customs Authority (ERCA) is the body responsible for collecting revenues from customs duties and domestic taxes. It was established on 14th July, 2008 by merging three governmental bodies. According to Art 3 of the proclamation No. 587/2008 because of their similarities in activities, resource mobilization and organizational arrangement the merging of the ministry of Revenue, Ethiopian customs

Authority and the Federal Revenue become necessary for the establishment of Ethiopian Revenues and customs Authority (ERCA) it is established as an independent federal agency having its own legal personality with the following objectives:-

- To establish modern revenue assessment and collection system; and provide customers with equitable, efficient and quality service,
- To cause taxpayers voluntarily discharge their tax obligations,
- To enforce tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion,
- To collect timely and effectively tax revenues generated by the economy;
- To provide the necessary support to regions with a view to harmonizing federal and regional tax administration systems.

In order to achieve the above objectives ERCA opens 13 outline branches and 17 city branches in Addis Ababa that are delegated to collect various taxes from small and large taxpayers. In addition to these branches another two separate medium taxpayers branches were opened having the intention to bring tax harmonization, to improve the service

delivery and to solve the problems in Addis Ababa city Tax administration. The openings of these new branches also help to decrease the burden of small taxpayers branches were opened having the intention to bring tax harmonization, to improve the service delivery and to solve the problems in Addis Ababa city Tax Administration. The openings of these new branches also help to decrease the burden of small taxpayers' branches previously small taxpayers branches serve lots of taxpayers in addition to those VAT registrants whose annual turnover is below I million, but currently if the VAT registrants' annual turnover is below I million, but currently if the VAT registrants' annual turnover reaches I million they are categorized as medium taxpayers and their documents will be transferred to those newly opened medium taxpayers branch offices. The Addis Ababa No.1 Medium Taxpayers Branch office is one of the recently opened medium taxpayers branches which covers the area of Arada, Gulelle, Yeka Addis Ababa Ketema and Kolfe Keranio Sub-cities taxpayers and the other newly opened branch office is the Addis Ababa No.2 Medium Taxpayers Branch office which covers taxpayers who are doing business in Lideta, Kirkos, Bole, N/silk Lafto and Akaki Kality Sub-cities this divides the Addis Ababa city into two (Sara gebeyehu, 2016)

For the reason these two are authorized to collect various types of direct and indirect taxes like income tax, pension contribution fund, income from the rental of a building, excise tax, value added tax etc. from sole proprietorships and small-scale cooperatives that are already registered for VAT but whose annual turnover is greater than or equal to I million. Therefore, each of the mentioned sub-cities transfer the documents of those registrants to the respective medium taxpayers branch offices after their annual sales reach one million. Accordingly, these medium taxpayers branches do not perform the registration and identification processes of taxpayers. As a result the establishment of these branches will help ERCA to make its service more custom-made and collect the potential tax revenue.

The Addis Ababa No. 1 medium Taxpayers Branch office started its operation in 2013 with the transferred VAT registrants' documents of around 4,000 which are categorized as medium taxpayers from Arada, Gulelle, Yeka, Addis Ketema and Kolfe Keranio small Taxpayers Branch offices.

As the same time, the Addis Ababa No.2 Medium Taxpayers Branch office started its operation in 2013 with the transferred VAT registrants' documents of 2,500 which are categorized as medium taxpayers from Lideta, Kirkos, Bole, N/Silk Lafto and Akaki Kality small taxpayers Branch offices.

1.2 Statement of the Problems

VAT is the principal source of revenue for the Ethiopian government. For instance, during the last five years, between 2004/05 and 2008/09 E.C, Federal VAT revenue (on domestic transactions) accounted with slight increase in each year between for about 40-42 percent of total federal revenues from domestic source.

In spite of this higher revenue-generating role, the tax authority faces a growing compliance risk. If we consider the result of VAT assessment during fiscal year 2008/09 E.C in the three Addis Ababa branches, reports indicate the existence of higher compliance risk. In western Addis Ababa branch out of the 9282 VAT registered taxpayers in the branch, 236 taxpayers (2.5%) were assessed, and Birr 55,001,220.30 VAT (41%), Birr 16,126,394.18 penalties (12%), and Birr 62,765,900.14 (47%) interests on undue payment were collected. That is, besides the gain due to increased VAT, 59% of the total revenue is collected in the form of penalties and interest. Hence, the majority of VAT income is coming from the penalties and interest. The reason for this is taxpayers are not complying. Moreover, during the same fiscal year 21 charges filed on those cases of noncompliance (ERCA, 2017). All these prove the existence of high noncompliance at ERCA.

To sustain VATs revenue role in the governments finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible. However, in Ethiopia revenues raised by VAT are usually generated at the expense of erosion in its salient features (Yesegat, 2008). This may be caused by factors including poor vat administration, i.e., the incapacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design features of vat and achieving government's policy objectives at large.

Ethiopia has been experiencing unstable revenue collections from VAT for a good number of years now since the introduction of the system. This situation raises many questions and attracts more findings for such fluctuations in the vat revenue collections. ERCA performance reports 2012 shows clearly the performance of VAT and also an analysis of Ethiopia budget 2010/2011 shows how the Ethiopia budget relies on the tax collections and how dependent the budget is.

Although few attempts are done to study the VAT administration at the ERCA, (Teffera, 2005 and Yesegat 2008), no study has looked exclusively on VAT compliance. Whilst they did not examine exclusively on VAT compliance they states few issue about it. For instance, (Teffera, 2005), attempt to show the problem of non-compliance by providing information on credit filers, nil-filers and non-filers. He concludes that taxpayer's compliance problems are continuously manifests due to deliberate evasion and unlawfulness, and weak audit and enforcement capability of the tax administration. (Yesegat 2008) on the other hand by demonstrating the number of audited taxpayers during the year 2004/05 and 2005/06, conclude the existence of low audit rate and this may have negative impact on the revenue potential of VAT and the level of compliance. The study was attempted to assess the VAT compliance factors; in the case of Addis Ababa middle tax payers branch office No. 2.

1.3 Research Questions

- Are there any administrative bottlenecks in branch office which affect the VAT performance?
- Are there any weaknesses in the VAT law and regulations that affect the revenue performance of VAT?
- Are there any influence in VAT collection performance because of tax payers perception and attitude?
- Are there any effect on VAT collections because of tax payers understanding and knowledge?

1.4 Research Objective

1.4.1 General Objective

The main objective was to assess VAT compliance factors; in the case of Addis Ababa middle tax payers' branch office No. 2.

1.4.2 Specific Objectives

- to assess the administrative capability on VAT collection,
- to assess weakness on VAT law and regulation,
- to assess tax payers' perception and attitude toward VAT collection,
- to assess level of tax payers understanding and knowledge to VAT collection and compliance cost.

1.5 Significance of the Study

The research is expected to identify the key problems that hinder the smooth administration and implementation of VAT in the branch office and then recommend mechanisms for improvement. In addition, it also has an aim of recommending mechanisms for enhancing the performance in the revenue generation process from VAT collection. Hence, the study will play key role in the development process of the nation by recommending mechanisms of enhancing the capacity of the branch office. Lessons can also be drawn to other similar branch offices. The study also can be a source document for other similar research.

1.6 Scope of the Study

The scope of the study was limited to VAT only; it did not consider other types of taxes. In addition, it is going to be conducted in Addis Ababa medium tax payer Branch 2 office of the Revenue and Customs authority. Hence, the study doesn't include the revenues collected through the custom's part of the authority. The scope of the study is also limited to only five years' time.

1.6 Organization of the Study

The paper is organized in five chapters. General introduction is given in the first chapter. And the relevant literatures in the field are discussed in the second chapter. In chapter three research design and methodology is presented. Following this, chapter four contains results and discussion. Finally, summary, conclusions and recommendations are presented in the fifth chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

The literature review of chapter two covers the theoretical and empirical review, factors influencing VAT compliance and the conceptual framework.

2.2 Theoretical Literature Review

This section will discuss tax compliance namely; the fiscal psychology theory, the economic deterrence theory, and the ability to pay theory.

2.2.1 Fiscal Psychology Theory

The fiscal and social psychology theory says that the more the taxpayer's attitude in the payment of taxes, the bigger is their motivation in paying taxes (Schmolders, (1960). Taxpayers' motivation to comply with tax laws relates to the taxpayers perception and attitude of the tax system (Strumpel, 1966).The theory pays attention to psychological variables like moral values, ethical values and the fairness of the tax system. Tax compliance theories assume that psychological factors in addition to moral and ethical values are important to taxpayers. Under the fiscal psychology theory, is the theory of planned behavior which states that the behavior of an individual is under the influence of some factors that originate from certain reasons and emerge in a planned way (Ajzen, 1991). Ones behavioral intention which is influenced by factors like attitude, subjective norms and perceived behavioral control influences the individual to behave in a particular way. The three factors fall under the influence of behavioural, normative and the control beliefs. Taxpayers may comply even where the probability of detection is low since the theory's focus is on morals and ethics. Under the psychology theory the emphasis is on change of the taxpayers attitudes towards the tax system.

2.2.2. The Economic Deterrence Theory

The economic deterrence theory is a theory under criminology developed by (Becker 1968). The theory is built on the perception that an individual will be deterred from committing a crime if the benefit of the crime is outweighed by the consequence of committing the crime. The theory is premised in the belief that all individuals are aware of the consequences associated with criminal behavior. Taxpayers will act contrary to the law after evaluating the uncertain advantages of a successful evasion against the risk of being caught and punished. Rational taxpayers will evade taxes if the expected benefits are greater than the cost of being caught. Deterrence can be achieved through punitive and persuasive approaches (Kendrick, 1939). Under the punitive approach, effective imposition of tougher penalties and reducing the probability of non-detection will deter a taxpayer from committing activities related to tax evasion. Persuasive approaches advocate for activities relating to improved taxpayer education concerning their duties, rights & obligations, simplifying the tax system and facilitating taxpayers in filing their tax returns & making payments.

2.2.3 Ability to Pay Theory

The ability to pay theory developed by, Mill (1848) proposes that citizens contribute to the support of the government as nearly as possible, in proportion to their respective abilities in terms of revenue. Those who are better able to pay should bear the greater burden of taxation, whether or not they benefit. Ability to pay is interpreted in terms of sacrifice. It says that money for public should come from “him that hath” instead of from “him that hath not”, Kendrick (1939). Kendrick further says that, the usual and indeed the only serious justification of ability to pay is on grounds of sacrifice. The payment of tax is viewed as a deprivation to the taxpayer. He might have spent the money for his own purposes but instead must turn it over to the public treasury from which it will be expended for social ends. In surrendering his money to the government, he is said to make a sacrifice. The idea of sacrifice when linked to the concept of the declining marginal utility of money has given rise to three theories of progressive taxation: the equal, equal-proportional, and least-sacrifice theories.

The theory of equal-sacrifice suggests that, taxes should be laid in such a manner that the sacrifices of all taxpayers are equal. The concept of equal sacrifice means to impose an equal amount of sacrifice on all taxpayers, (Brown, 1929). The theory of equal-proportional sacrifice holds that the sacrifice of taxpayers should bear an equal proportion to their incomes. Thus in this view equality of sacrifice is not sufficient. The rich man's tax payment should represent a greater sacrifice than the contribution of a man of moderate means. It should, however, not be greater in relation to his income. The equality is, therefore, to be found in the proportion, not in the quantity of sacrifice, (Pigou, 1928). The theories of equal and of equal-proportional sacrifice both involve the taxation of poor as well as rich persons, (Seligan, 1928). In neither theory is there an attempt to make any income group bear all the taxes. According to the theory of least sacrifice, taxes should be laid first on the incomes of the very rich (Pigou, 1928). When these incomes are reduced to the level of the rich, then the rich would be taxed. Persons of moderate means would be taxed only after the incomes of the very rich and the rich have been reduced by taxation to their level. The theory calls for the progressive elimination of the high incomes by taxation.

2.3. Factors Influencing VAT Compliance

This section will discuss factors influencing Value Added Compliance among tax payers.

2.3.1. Tax Understanding and Taxpayer Knowledge

Lewis (1982) says that a good tax system should satisfy the four canons of taxation (ability to pay, efficiency, equity and simplicity). Simplifying that tax systems ensures that basics of taxation are easily understood by the majority of taxpayers and should be easy to operate it. The system should avoid frequent changes to the tax rates, complicated and cumbersome tax language. The language should be easily understood by ordinary taxpayers. Tax understanding encompasses tax aspects like conversant with the tax system, knowledge of the applicable tax obligations and knowing where relevant tax information is available. Taxpayer knowledge is concerned with the taxpayers' ability in understanding tax laws, the willingness to comply and the role of taxes in national development (how tax collected by the government is utilized (Mohd, 2010).Taxpayer

education activities are meant to enhance the level of taxpayer understanding of the tax systems and empower taxpayers in fulfilling their tax obligations. Noncompliance opportunities may be readily available to educated taxpayers but because of their better understanding of the tax system contributes towards positive attitudes hence promoting tax compliance. Education programs creates awareness of laws, procedures, motivates taxpayers to voluntarily comply, report correct income, maintain a close relationship between the revenue authority & the taxpayer and instill confidence in the tax system (Oyedele, 2009). Teaching tax courses should be emphasized because of their impact on compliance (Hite and Hasseldine, 2001).

Taxpayer knowledge has influence on compliance and various researches support this argument. Knowledge is categorized on the basis ordinary or official education received and knowledge towards the opportunity to evade tax (Groenland&Veldhoven, 1983). Tax knowledge as one of the key factor in tax compliance has a very close relationship with the taxpayers' ability to understand the tax law & regulations, and their ability to comply (Singh, 2003). Taxpayer education exists to encourage voluntary compliance through service delivery to taxpayers. Low levels of voluntary tax compliance will compel revenue authority to use costly and coercive methods to enforce compliance (Fjeldstad and Ranker, 2003). Kimingu and Kileva (2007) says that the education component will deal with compliance matters in the informal sector. This is premised on the possibility that non-compliance being unintentional due to the ignorance of the law or may be intentional due to the negative compliance attitudes. (Christina, Deboral and Gray, 2003).

2.3.2. Cost of Tax Compliance

Tax compliance expenses are incurred by taxpayers in the process of fulfilling tax requirements laid on them by tax law (Sandford, 1995). Tax compliance costs include the tax collection costs, expenses relating to paying and accounting for tax, wages & salaries of employees and professionals and the cost of acquiring knowledge, updating the system to enable it work. Taxpayers usually depend on tax professionals who through avoidance schemes minimize tax payments (Franzoni, 2000).

Compliance expenses can be interpreted in different ways. One, the costs are divided in three in respect to time, monetary and psychological costs. Time expenses relate to hours consumed to in ensuring all aspects of tax compliance. Cash expenses relate salaries paid to internal employees and fees paid external tax professionals. The psychological costs concerns the effects upon a taxpayer in dealing with the tax matters e.g. mental stress. Psychological costs are difficult to quantify. Other compliance expenses include all expenses incurred by the taxpayer but are outside the control of the taxpayer (Hijattulah and Pope, 2008). Vaillancourt (1987) held that Value Added Tax (indirect tax) has a higher compliance cost than Income Tax (direct tax). In the study survey of the OECD countries, 8 out of 11 countries cited VAT compliance cost as forming the largest part of the total tax compliance cost (Pope, 2001). Compliance expenses entail record keeping, preparation and submission of VAT returns (Cleruox, 1992); Klun, 2004; O'Keefe & O'Hare, 2008).

2.3.3. Taxpayer Perception and Attitudes

Perception towards taxation and its general compliance levels has been identified as one of the major factors that influence compliance, even in the tax compliance theory as explained in Section 2.2.1 (the fiscal and social psychology theory) of this study. Taxpayer's perception on how fair the tax system is influences their attitudes to pay taxes (Coskun, 2009; Alm, et al, 2011). If the motive of the taxpayer is to reveal his viewpoint in a system will evaluate the fairness of the tax system with objectivity and where the taxpayer whose attitude is motivated by what to gain from the system may regard the system fair only if he is benefitting from the system (Alabede et al, 2011). In the studies of Roth (1989) and Jackson & Milliron (1986), they concluded that the taxpayers' about the fairness of the system have links with taxpayer attitudes and behavioural intentions about tax compliance. And Richardson (2006) explained that the perceived tax fairness of the system is significantly related to tax non compliance.

There exists a strong relationship between the taxpayer's attitudes and tax compliance. Taxpayers' positive attitudes encourage tax compliance. In a research conducted in Kenya (Wanjohi, 2010) explained that most taxpayers view the Kenyan tax system as

unfair. This was because most respondents differed that they are paying a fair share of tax than their neighbors or friends and that their neighbours are not reporting and paying tax honestly.

Tax fairness consists of two different dimensions. The first dimension involves the equity of the trade - the benefits received for the tax given. Thorndike (2009) noted that taxpayers should comply with their tax obligations and the government to secure the security of taxpayers. The second dimension is that the tax system should ensure equity of the tax burden on all taxpayers (Jackson and Milliron, 1986). The unfairness of the tax system is reflected in the taxpayers' perception when they feel that the value of received services provided by the government is not commensurate with taxes paid or they are overpaying taxes when compared with what other taxpayers pay. Taxpayers who believe that the tax system is unfair are prone to engage in non-compliance behavior (Porcano, 1984).

2.3.4. Tax Administration

Pressure on government to reduce budget deficit, foreign and domestic borrowing necessitates the government to review its policies and administration in order to achieve adequate tax revenue collections. IMF review mission recommends that, government should consider forming the revenue authority that will resolve many of the weaknesses in the tax system, Wayne (1997). The establishment of efficient and transparent tax administration systems is crucial, sound fiscal management. Increase in tax revenues and public expenditures have become important to sustain economic growth and social stability. Policy makers and administrators need to improve their enforcement of tax administration, taxpayer services, and tax policy harmonization. These are key elements of good governance and sound tax administration system. In fact the success or failure of the tax administration depend the degree of cooperation between the taxpayers and their advisors on one hand and staff on the other hand. Taxpayer advisors may be either practicing lawyers or accountants. The number of professional accountants and lawyers in Tanzania is currently inadequate although it is gradually increasing therefore voluntary compliance is gradually improving, Mpongoliana, (2000: 18).

However, Aizenman and Yothin (2008) emphasize that VAT collection efficiency remains largely dependent on the quality of enforcement and the efficiency of monitoring, which both increase with political stability and the ease and fluidity of political participation. Moreover, increased expenditure on the administration of VAT and more experience with VAT has been found to be significantly associated with increased compliance Agha and Haughton (1996).

2.3.5. VAT law and regulation

In addition the Organization for Economic Cooperation and Development (OECD) observation on the factors affecting the performance of VAT systems reflects a conventional view of VAT in practice. This organization says, the overall performance of VAT in Africa as reflected by levels of voluntary compliance, depends on three main factors; a) The capacity of policy makers to take into consideration the structural weakness of the tax administration. b) Commitment at the highest level to apply the designed penalty system and, c) The development of a client-oriented tax administration and an effective VAT audit program. Aizenman and Yothin (2005) say we consider the case where the collection efficiency is determined by the probability of audit and by the penalty on underpaying. Implementation lags imply that the present policy maker determines the efficiency of the tax system next period. Theory suggests that the collection efficiency is impacted by political economy considerations greater polarization and political instability would reduce the efficiency of the tax collection. In addition, collection is impacted by structural factors affecting the ease of tax evasion, like the urbanization level, the share of agriculture, and trade openness.

2.4 Empirical Review

Awura (2008), notes that the tax administration and individual agencies suffer from limitations in manpower, money, tools and machinery to meet the ever increasing challenges and difficulties. In fact, the negative attitude of most tax collectors toward taxpayers can be linked to poor remuneration and motivation. A major problem facing the country is the multiplicity of taxes. Individuals and corporate bodies complain about the ripple effects associated with the duplication of tax.

According to Leitman (1996), the problems are the deficient tax administration and collection system, complex legislation and apathy of the Nigerians caused by the lack of value received in return for their taxation money. The general perception that the rich do not pay taxes in Nigeria has further worsened the situation.

Nurlis (2015) in his article, examines the outcome of taxpayer awareness, knowledge, tax penalties and service tax authorities on tax compliance a survey held on the individual taxpayer at Jabodetabek & Bandung in Indonesia. Study data was collected using the accidental sampling method that is questionnaires were distributed to those who visited tax offices of Jabodetabek & Bandung individual tax payers". Result of the study indicated that, awareness of the taxpayer has a positive and significant effect on individual taxpayer compliance. In addition to, tax knowledge of tax payers" also has a negative and significant relationship of taxpayer compliance. This indicates that the level of knowledge of good tax really looking for gaps to avoid tax liabilities, tax penalties has a positive and significant relationship to the individual taxpayer compliance which performs at the tax office in the area. Further the study displays that the more effective application of tax penalties, the tax compliance rate will be higher. Service tax authorities have a positive and significant relationship of compliance individual taxpayers" that performs at the tax office in the country. Finally the study proposes that the better the service tax authorities, the tax compliance rate will be higher.

Mohamad et al (2007) examine the influence of tax knowledge on compliance behaviour by divided the tax knowledge in to groups those are, knowledge explicitly focused at possible opportunities to evade tax and knowledge gained through formal education.

Study result indicated that, regarding the rules and regulation of the taxation, the level of education received by taxpayers“ is an important factor that contributes to the general understanding.

Gilligan et al (2005) studies on “perception of tax fairness and tax compliance in Australia and Hong Kong” concluded that there seem to be no universal relationship or pattern that exist cross culturally between the different facets of tax fairness perceptions and tax compliance behavior. Faridy (2015) studied on Value Added Compliance costs and Value Added Tax evasion of the SME sector in Bangladesh. It was concluded that analyzing tax evasion is a difficult exercise and taxpayers have a very strong incentive of concealing their tax evasion schemes.

According Loo et al. (2008) in their study, in a Malaysian environment, disclose a divergent research finding indicated that, the overall argument, where they reported that increases in taxpayers“ knowledge had have a negative impact on their perceptions on conversation fairness. In addition to this, individual taxpayers“ those who have good knowledge of tax felt that they are not receiving their fair share of benefits funded by tax revenue. Although the benefits have been provided in terms of public facilities such as free education and subsidized wellbeing system, the fact that the detailed information on the source of expenditure are not publicly available may have created this negative perceptions on the fairness of the income tax system in the country.

2.5 Conceptual Frame Work

This study focuses on the assessment of factors affecting the VAT compliance as the independent variables and the VAT compliance as the dependent variable. Demonstration of the dependent and independent variable

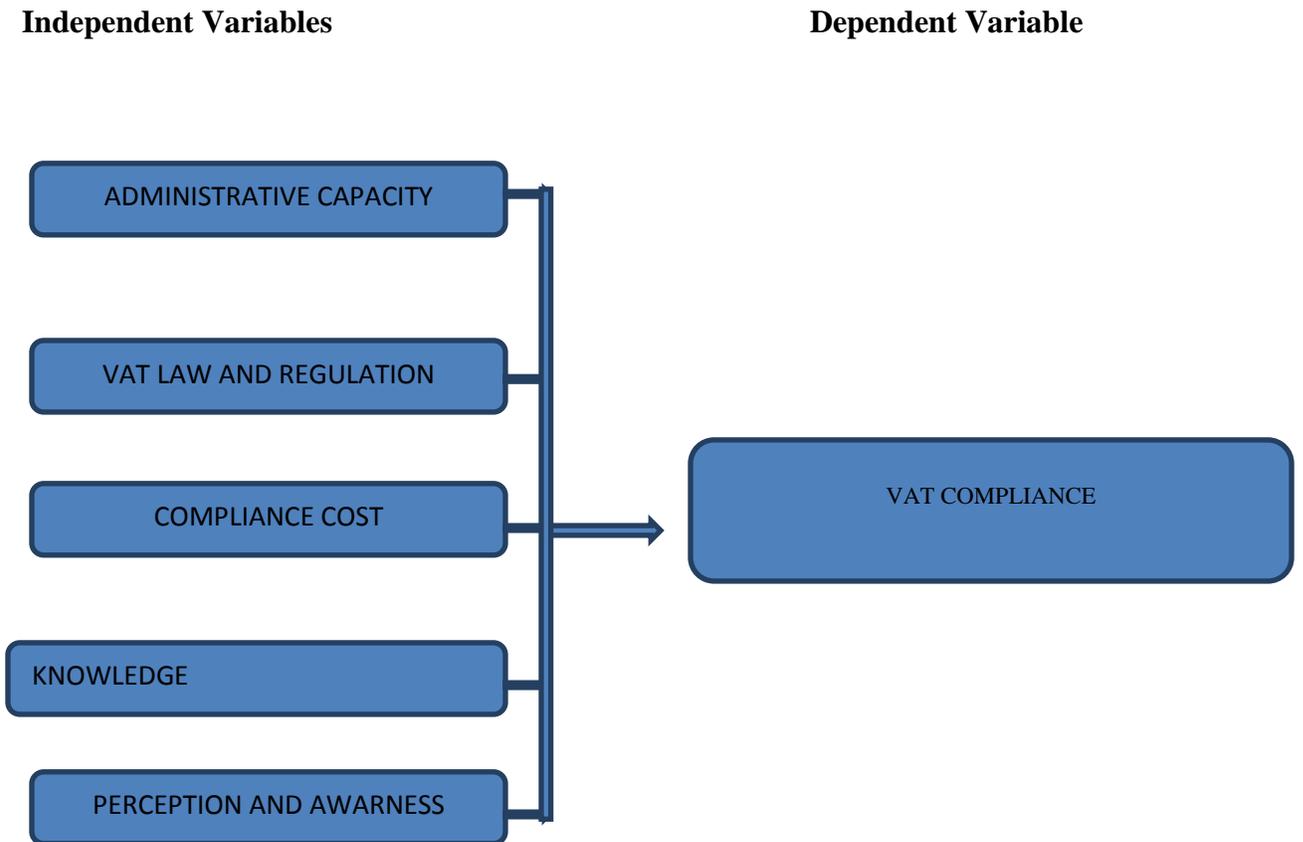


Figure 1: Demonstration of the dependent and independent variable

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter was describe the research design, population, sampling design, data collection and analysis which was be employed to achieve the research objective of this study.

3.2. Research Design

This study adopted a descriptive research design which is best for this study as it describes characteristics associated with the subject population. According to Coopers and Schindler (2003), descriptive design discovers and measures the cause and effect of relationships between variables. The descriptive research will determine and report the way things are and provide the alternative possible behavior, attitudes, ideals and characteristics of such things (Mugenda, 2003).

The researcher was use a descriptive research design because this enables the researcher to collect a large quantity of information about the population under study. A survey design is appropriate as the data required for analysis is to be collected from a large population that is tax payers of Addis Ababa middle tax payers' branch office 2. The descriptive design is appropriate in the study since it is accurate, factual and systematic. The descriptive approach was be incorporated with the survey design to enable the researcher to collect comprehensive qualitative and quantitative data that will enrich the outcome of the study. For that reason, the approach will enable the researcher to establish factors influencing Value Added Tax compliance in the branch office.

3.3. Target Population

Registered tax payers in the Addis Ababa middle tax payers branch office 2 during the study period makes up the target population for this study. The researcher was collected

the required information from the sampled tax payers. Available information indicates that there are a total of two thousands and five hundred of registrant tax payers as at December 2016.

3.4. Sample Size and Sampling Procedure

Sampling entails the selection of part of the population that represents the characteristics of the entire group. Sampling is advantageous in the sense that it saves on time and cost since it is easier to deal with the small group (sample) that represents an entire population than analyzing the whole group of interest. From the target population of two thousands and five hundred. The researcher was adopted a random sampling technique to select the respondents from the target population.

$$n = \frac{N}{1 + N(e^2)}$$
$$n = \frac{2500}{1 + 2500(0.05^2)}$$
$$= 345$$

N=target population

n= sample size

3.5. Data Collection and Sources of Data

The study used primary data. Questionnaire was administered to obtain primary data on the influence of; the level of tax understanding & taxpayer education, compliance costs, perception and awareness and taxpayer understanding and knowledge on VAT compliance. The researcher was personally administering the questionnaires.

3.5.1. Validity of the Research Instrument

Validity is the extent to which a research instrument measures what it ought to measure (Kothari, 2004). In this reason the term validity refers the degree to which an instrument

asks the right questions in terms of accuracy. Reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda 2003).The validity of the research instrument will be determined in two ways. First, the questions in the questionnaires will be discussed with the supervisor and the tax administration professionals. Secondly, the researcher conducted run a pilot test of the questionnaire to make sure it is understandable and acceptable to the intended audience. This helped redefine the emerging issues on the study instruments.

3.5.2. Data Analysis and Presentations

The findings of Likert scale measures were evaluated according to Best; the score from 1-1.80 is lowest, from 1.81- 2.61 is lower, from 2.62-3.41 is average/moderate, from 3.42-4.21 is good/high, and 4.22-5 is considered very well. And, a value of SD of 1 and less shows less variability in a five point Likert scale. Edition for completeness and uniformity of received questionnaires was done. Both quantitative and qualitative data was generated. Data are presented in tables, and in narrative form. Analysis of variables relationship was through percentages of occurrences and qualitative analysis of information gathered. Data analysis tools used in the research considering the nature of research and data there on will be SPSS version 20.0

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents data analysis, presentation and interpretation of findings on the primary and secondary data collected. The main objective of the study was to evaluate the effect that that influence VAT compliance levels in relation to taxpayer level of tax understanding & taxpayer education, compliance costs, tax law and regulation, and taxpayer perception and attitudes. The study sampled three hundred forty five (345) tax payers and the data analyzed and interpreted as the objective of the study.

4.2 Response Rate

The study targeted a total of 345 respondents on the assessment of factors influencing VAT compliance. Out of the 345 questionnaires issued, 266 were returned giving 77 % response rate. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% good and above 70% is rated very good. This implies that based on these assertions; the response rate for this study, 77 % is very good.

4.3 Demographic Information

The study found it important to establish the demographic information in order to assess the factors that influence the VAT compliance in the Addis Ababa No. 2 medium tax payers' branch office.

Table 1: The Respondents' Demographic Information

Characteristics	frequency (n)	percentage (%)
Gender		
Male	144	54%
Female	122	46%
Age		
25-30	43	17
31-35	111	44
36-40	65	25
41-45	33	12
Above 46 years	8	2
Education level		
TVET	68	27
Diploma	99	38
Degree	67	27
Master	24	8
Above master	-	-

The study sought to establish the Gender, Age, and Level of Education of the respondents. The studies found that gender of the respondents were 54.2% Males and 45.8% Females respectively. This implies that both genders were involved highly in the study and thus the finding of the study did not suffered from gender bias. The study requested the respondents to indicate their age category, the findings revealed that 17.% of the respondents were aged between 25 to 30 years, 44.% of the of the respondent indicated they were aged between 31 to 35 years, 25.% of the respondents indicated were aged between 36 to 40 years, whereas the remaining 12 % of the respondents indicated that they were aged between 41-46 years and 2% of respondents were above 46 years This is an indication that respondents were well distributed in terms of their age bracket. The age bracket implies that the respondents were comprised of heterogeneous groups;

which in turn enabled the researcher to get varied responses across the sample units fairly distributed.

The researcher sought to know the level of education of the respondents which mostly affects the taxpayers' level of tax understanding and knowledge. The findings are presented in Table ,1 above; The research results reveal that most respondents are those that possess diploma level of education at 38% followed by those with TVET level and degree level both education level score equal level of education i.e. 27% each. The study findings reveal that 8% of the respondents are educated up to their second degree or master. But the research not found none of respondents push their education to above master. The study shows that most of the respondents are well educated to enable them make better decisions concerning their tax matters.

Factors Influencing VAT Compliance

The objective of the study is to establish assess factors influencing VAT compliance among the Addis Ababa middle tax payers branch office No. 2. The researcher sought the opinion of the sampled tax payers on the factors influencing their level of VAT compliance.

4.4.1 Administrative capacity of branch office

Table 2: Administrative capacity of branch office

Administrative capacity of branch office	S.A	A	N	D	S.D	Mean	S. deviation
The branch office has adequate manpower.	5(2%)	16(6%)	5(2%)	80(30%)	160(60%)	1.32	0.668
The branch office staffs technically competent in executing their duties and responsibilities	186(70%)	59(22%)	5(2%)	10(4%)	5(2%)	4.03	0.708
The methods used by the branch office to identify taxpayers adequate.	29(11%)	32(12%)	10(4%)	53(20%)	141(53%)	1.78	0.911
There is close follow-up and supervision by branch office over the identified taxpayers.	160(60%)	35(13%)	5(2%)	40(15%)	27(10%)	3.02	0.721
There are strong control measures of fighting corruptions and embezzlements in branch office administration system.	-	27(10%)	5(2%)	48(18%)	186(70%)	1.32	0.707
Grand mean						2.42	

The study sought to know respondents agreement level to ‘the branch office has adequate manpower’ as one can see from the above table respondents reveal lowest level of agreement which was mean value of 1.32 Those who explained said that, branch office shows that it does not have enough manpower to execute efficiently its responsibilities. They said, that can be noted with the frequency with which the visit the taxpayers, the time taken to respond to claims raised by taxpayers and in addition the frequency with which branch office recruits indicates that there is still additional manpower needed for it to operate efficiently and effectively.

Concerning the competency level of the branch office staffs the respondent show there level of agreement by agreeing that is mean score of 4.03. Some of the responds explained that; the degree of competency with the branch staff has been improving day by day due to additional training given to them. They added that, the current recruitment policy of ERCA emphasis employing the highly qualified candidates only those with Upper second classes and First classes. With this, they believe that most of its staff in the long run will be technical competent.

The study also finds the method used by the branch office to identify taxpayer is not adequate or disagreement which is shown by lower mean score of 1.78. Those who explained argued that; most of the traders do not keep proper records of their transactions and those who keep proper records mostly default by keeping two different records to evade tax. Mostly they undervalue their turnover so that it does not qualify for VAT. Most small traders do not wish to register for VAT; because they will be forced to sale their products are at a relatively higher price and so fail to compete effectively in the market. Therefore the respondents say that, the branch office should employ effective methods in effective identification of the taxpayers as many of them do not wish to register voluntary.

The respondents show their level of agreement to the statement of ‘There is close follow-up and supervision by branch office over the identified taxpayers’ the response were neutral as shown in the above table the statements score mean value of 3.02. the study also reveal that there is no strong measure to control corruption in the branch office which is shown by mean score of 1.32 which is the lowest in the category and given for

the statement of ‘There are strong control measures of fighting corruptions and embezzlements in branch office administration system.’

In conclusion, according to the response found from the respondents, the research found that the branch office administrative are in capable for effective VAT collection in terms of human resource with sufficient technically competency in executing their duties and responsibilities, the methods used to identify tax payers with low close follow-up and supervision by branch office over the identified taxpayers and inadequate control measures of fighting corruptions and embezzlements in branch office administration system which is shown by with grand mean of 2.42.

4.4.2 The VAT Law and Regulation

This section presents findings on research question two which aims at evaluating whether there are any weaknesses in the VAT law and Regulations. The weaknesses in the VAT law and Regulations were analyzed as following

Table 3: The VAT law and regulation

VAT law and regulation	S.A	A	N	D	S.D	Mean	S. Deviation
The registration threshold for branch office is high.	112(42%)	27(10%)	16(6%)	32(12%)	80(30%)	2.93	0.648
VAT Exemptions is perpetuated.	5(2%)	13(5%)	8(3%)	27(10%)	213(80%)	4.65	0.688
I find it hard to comply with the tax laws as they are complicated	146(55%)	48(18%)	5(2%)	40(15%)	27(10%)	3.74	0.891
The tax system in place motivates me to voluntarily comply with my tax obligations.	29(11%)	32(12%)	11(4%)	53(20%)	141(53%)	2.12	0.688
I feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment.	186(70%)	59(22%)	5(2%)	16(6%)	-	4.72	0.891
Grand mean						3.63	

Respondents were asked to indicate and explain on whether the registration threshold for VAT is high and the respondents reveal that their disagreement with a mean score of 2.93. Some of the respondents in responding to the above question explained that; the registration threshold should be relatively lower as compared to what it is presently. Some of the respondents argue that the amount is higher and suggest that it should be lowered. They say that, small businesses wishing to secured businesses with registered businesses are unable because they are not registered and would wish to but the constrain remains to be the registration threshold.

Respondents were asked on their level of agreement on the statement of ‘the VAT Exemption is perpetuated. The responses reveal that the respondent’s agreements on VAT exemption perpetuation with the higher mean score of 4.65. The findings show that VAT exemption is one among the factors affecting the revenue performance of VAT. Not all citizen and non -citizen people or corporations pay taxes; some are exempted from payment of tax for one reason or another. The main reason for providing exemption was to encourage investment in different sectors both from within and outside the country. The respondents argue that, these exemptions should be reviewed as the economic state of the country still needs a lot of revenue collections so bring about sustainable developments.

The respondents also reveal their level of agreement on complexity of the VAT system and it is hard to comply with the tax laws as they are complicated and show their agreement with higher mean score of 3.74. The respondents also reveal their level of agreement on the statement of ‘The tax system in place motivates me to voluntarily comply with my tax obligations.’ and they reveal their disagreement with mean score of 2.12. The respondents also not cover their level of agreement on the statement of ‘I feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment.’ They reveal their feeling with the mean score of 4.72 and they strongly agreed about there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment.

In sum from the respondent’s response the researcher conclude that concerning the VAT law and regulation the respondent’s level of agreement were neutral with grand mean

score of 3.63 but in terms of tax law complexity it's hard to comply with the tax laws as they are complicated and the respondents feel there is a lot that can be done on the tax system to ease the work of preparation of tax returns and payment.

4.4.3 Level of Tax Understanding and Knowledge

It is believed that if all taxpayers are knowledgeable on tax matters, then tax compliance rates will go up. The researcher sought to establish the level of tax understanding and knowledge of the respondents. Tax understanding and knowledge entail operations of VAT self-assessment system, challenges faced in the process of raising tax understanding and the effect of tax understanding and knowledge on tax compliance as discussed below. The responses received are as captured below;

Under the VAT self-assessment system, taxpayers assess their personal tax liabilities or credits, declare in their respective tax returns, submit the tax return and make payments where applicable. The researcher sought to know whether the respondents understood the VAT self-assessment tax system, the VAT mechanism of input output and obligations and duties of a VAT registered business. Tax knowledge and understanding is significant in tax compliance. The findings of the study are presented in table 4 below;

Table 4: Level of Tax Understanding and Knowledge

Level of Tax Understanding and Knowledge	S.A	A	N	D	S.D	mean	S. deviation
Conflicting information from different sources.	51(19%)	85(32%)	64(24%)	37(14%)	29(11%)	2.96	0.648
Long queues in gaining access to branch office.	98(37%)	112(42%)	32(12%)	13(5%)	11(4%)	3.13	0.688
Technical details on brochures and tax Acts that I don't understand.	88(33%)	72(27%)	56(21%)	42(16%)	8(3%)	3.07	0.891
Delay in receiving feedback on queries raised.	66(25%)	82(31%)	45(17%)	53(20%)	19(7%)	3.00	0.701
Required information not readily available.	64(24%)	56(21%)	24(9%)	82(31%)	40(15%)	3.04	0.687
Branch office has put in place enough measures to ensure that taxpayers know of their obligations and reparations of non-compliance.	90(34%)	98(37%)	32(12%)	34(13%)	11(4%)	3.68	0.829
Grand mean						3.14	

As one can see from the above table 4, the respondents reveal their level of agreement on statements of ‘Conflicting information from different sources.’ They reveal their neutral level of agreement with mean score of 2.96 and also respond with same way for statements of ‘Long queues in gaining access to branch office, Technical details on brochures and tax Acts that I don’t understand, Delay in receiving feedback on queries raised, Required information not readily available’ with the mean score of 3.13, 3.07, 3.00, and 3.04 respectively. The respondents said that the complexity of the technical

details in the tax acts poses a serious challenge in raising the level of knowledge and understanding.

The respondents also show their level of agreement on the statement of 'Branch office has put in place enough measures to ensure that taxpayers know of their obligations and reparations of noncompliance.' and agreed with the above statement with mean score of 3.68.

In conclusion, the respondents reveal that their level of agreement on their level of understanding and knowledge were neutral which is shown by grand mean of 3.14. But if the branch office can simplify the tax system, make readily available the tax information give appropriate feedback to questions raised in good time and simplify the technical language used in the tax Acts, then this will positively contribute in raising the Vat understanding and knowledge. This will make it possible for the taxpayers to comply with VAT laws.

4.4.4 Tax Compliance Costs

Hiring of professionals to handle tax matters is a cost to businesses and in most instances taxpayers resort to handling their own tax issues even though they may not have proper understanding of the VAT legislation. The cost of book keeping and recordkeeping is also a major expense. In this regard the researcher sought to find out how compliance costs incurred by contractors affect their VAT compliance level. Covered under this are the VAT monthly compliance costs, the various VAT compliance costs and how the compliance costs affects VAT compliance rate.

The researcher sought to establish what the respondents felt was the level of agreement expensive compliance cost. The research findings are as shown in the table below;

Table 5: Tax Compliance Costs

Compliance cost	S.A	A	N	D	S.D	Mean	S. deviation
High fees charged for hiring professionals on services	98(37%)	74(28%)	45(17%)	32(12%)	16(6%)	2.98	0.658
Higher cost of taking training	104(39%)	69(26%)	48(18%)	24(9%)	21(8%)	3.01	0.798
Higher cost of book keeping	37(14%)	42(16%)	96(36%)	53(20%)	37(14%)	2.65	0.801
Higher cost for consulting accountant and other professionals on the area of VAT	146(55%)	85(32%)	21(8%)	13(5%)	-	3.35	0.611
Grand mean						2.99	

The study also sought to clarify issues on compliance cost of the respondents concerning to there level of agreement to the following statements ‘High fees charged for hiring professionals on services’ the respondents reveal their neutral level of agreement on the above statement which is shown by mean score of 2.98. the study also showed that the higher cost of taking training the respondents reveal that their level of agreement on the statements by mean score of 3.01. For the statements of Higher cost for consulting accountant and other professionals on the area of VAT the study reveal the respondents level of agreement on the statements and agreed on the issue which is shown by mean score of 3.35. However, concerning the statements of ‘the higher cost of book keeping’ the respondents reveal that neutral level of agreement by mean score of 2.65 which the lowest in this category. In conclusion, regarding the compliance cost of VAT collection from the responses conclude that the respondents reveal their level of agreement on the issue neutral level of agreement which is shown by grand mean score of 2.99.

4.4.5 Taxpayer Perception and Attitudes

Concerning taxpayer perception and attitudes towards the tax system, the respondents were asked questions on their belief on supporting the government by paying VAT, motivation of the tax system, ease of application of VAT laws, if they believe the VAT collected was properly used and if branch office has put in place adequate tax measures to encourage VAT compliance.

The researcher sought to establish the perception of respondents concerning tax payments. The respondents were expected to rate their perception using a four likert scale ranging from strongly agree to strongly disagree. The findings are shown in Table below:

Table 6: Taxpayer Perception and Attitudes

Taxpayer Perception and Attitudes	S.A	A	N	D	S.D	Mean	S. deviation
I believe it's my obligation as a citizen to support the government by paying taxes	(20%)	(60%)	-	(15%)	(5%)	2.96	0.738
I feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment.	130(49%)	85(32%)	5(2%)	42(16%)	3(1%)	3.62	0.778
I see no point of paying taxes when it is being misused by individuals in government.	104(39%)	117(44%)	-	11(4%)	8(3%)	3.59	0.981
I feel that I can pay my taxes in all obligations without being followed	63(24%)	160(60%)	-	24(9%)	19(7%)	3.01	0.791
I value the payment of taxes to the government	56(21%)	146(55%)	13(5%)	32(12%)	19(7%)	3.95	0.777
Other businesses value the payment of taxes to the government	58(22%)	130(49%)	-	45(17%)	32(12%)	2.80	0.919
I do gain access to the public utilities and services funded by the taxes collected.	3(1%)	88(33%)	-	114(43%)	58(22%)	2.52	0.774
Grand mean						3.20	

The study findings reveal that the respondents level of agreement on the statements of 'I believe it's my obligation as a citizen to support the government by paying taxes' they have neutral level of agreement and which is shown by mean score of 2.96. The respondents also not cover their level of agreement on the statement of 'I feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment.' They reveal their feeling with the mean score of 3.62 and they agreed about there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment.

For the statement of 'I see no point of paying taxes when it is being misused by individuals in government.' the respondents' reveal their level of agreement on the above statement with agreement with mean score of 3.59. and also show their level of agreement on the statement i.e. I value the payment of taxes to the government with the mean score of 3.95.

The study found that for the statements of 'I feel that I can pay my taxes in all obligations without being followed, other businesses value the payment of taxes to the government, I do gain access to the public utilities and services funded by the taxes collected' the respondents level of agreement were neutral level of agreement which is show by mean score of 3.01, 2, 80 and 2.52

From the study findings it can be concluded that the respondents value the importance of supporting the government through the payment of taxes if the revenue collected is put to proper use and taxpayers can access services funded by taxes collected. This is clearly shown by the grand mean of 3.20. The respondents that believed there is a lot that can be done on tax systems to ease the work of preparation of tax returns and payment.

CHAPTER FIVE

SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATION

5.1 Summary of Finding

The researcher sampled 345 tax payers in Addis Ababa middle tax payers branch office 266 of the targeted respondents returned properly filled in questionnaires giving a 77% response rate. Relying on the responses given by the respondents, the researcher came up with findings which were used to make conclusions and give recommendations.

The findings reveal that 38% of the respondents, their level of education is that of diploma and making them have better understanding make informed decision on VAT matters. as one can see in table 1, the age bracket indicated that respondents were well distributed in terms of their age. The age bracket implies that the respondents were comprised of heterogeneous groups; which in turn enabled the researcher to get varied responses across the sample units fairly distributed. Also table 1, showed that both genders were involved highly in the study and thus the finding of the study did not suffered from gender bias

Concerning the administrative capacity of the branch office the study found that the branch office administrative are incapable for effective VAT collection in terms of human resource with sufficient technically competency in executing their duties and responsibilities, the methods used to identify tax payers with low close follow-up and supervision by branch office over the identified taxpayers and inadequate control measures of fighting corruptions and embezzlements in branch office administration system which is shown by with grand mean of 2.42. The respondents argued that branch office still needs to add its man power and be able address the increased challenges. This finding is in line with Awura (2008) who identified the limitation in manpower as of the administration challenges facing revenue authorities. Odusola (2006) also identified that the inadequate number of staff is of the factors affecting the revenue performance of

VAT collection. This finding is in line with Leuven (2010) who found out that; skills, abilities and characteristics that an employee applies in performing his/her work and that are observable as behaviors or actions have a great deal in achievement of objectives. The study finding is also in line with Crandall (2010) who argued that many countries believe increased autonomy can solve administrative and corporate governance problems, such as organizational inefficiencies, and deliver fair and effective services to the public. There should be close follow on tax collections to bring about better collections.

Regarding the tax law and regulations from the respondent's response the researcher conclude that concerning the VAT law and regulation the respondent's level of agreement were neutral with grand mean score of 3.63 but in terms of tax law complexity its hard to comply with the tax laws as they are complicated and the respondents feel there is a lot that can be done on the tax system to ease the work of preparation of tax returns and payment. Finding of this study is congruent with Grandcolas (2008) as he identified the registration threshold as one the factor that the VAT revenue performance depend on and also identified exemption as one of the factor affecting the revenue performance of VAT.

The study also uncover tax payers level of understanding and knowledge and that the respondents level of agreement on their level of understanding and knowledge were neutral which is shown by grand mean of 3.14. But if the branch office can simplify the tax system, make readily available the tax information give appropriate feedback to questions raised in good time and simplify the technical language used in the tax Acts, then this will positively contribute in raising the Vat understanding and knowledge. This will make it possible for the taxpayers to comply with VAT laws.

Compliance cost regarding the compliance cost of VAT collection from the responses conclude that the respondents reveal their level of agreement on the issue neutral level of agreement which is shown by grand mean score of 2.99. this study findings are congruent with findings of King'ona (2016) findings the results provide evidence indicating that Value Added Tax compliance cost is a major factor considered by taxpayers whether to comply with taxation laws. Effective imposition of fines and penalties play a vital role in improving tax compliance.

Concerning the tax payers perceptions and attitude, from the study findings it can be concluded that the respondents value the importance of supporting the government through the payment of taxes if the revenue collected is put to proper use and taxpayers can access services funded by taxes collected. This is clearly shown by the grand mean of 3.20. The respondents that believed there is a lot that can be done on tax systems to ease the work of preparation of tax returns and payment. The study findings in line with King'ona (2016) concludes that taxpayer perception and attitudes has a significant effect on tax compliance.

5.2 Conclusion

The conclusions to the study are presented in respect to the research objectives which are; to assess the administrative capability on VAT collection, to assess weakness on VAT law and regulation, to assess tax payers' perception and attitude toward VAT collection, to assess level of tax payers understanding and knowledge to VAT collection and compliance cost. The main objective is to assess VAT compliance factors; in the case of Addis Ababa middle tax payers' branch office No. 2.

As mentioned in the preceding chapters, the administrative bottlenecks in the branch office studied were; adequacy of manpower, taxpayer identification, closes follow up, fighting corruption. Concerning the administrative capacity of the branch office the study found that the branch office administrative are incapable for effective VAT collection in terms of human resource with sufficient technically competency in executing their duties and responsibilities, the methods used to identify tax payers with low close follow-up and supervision by branch office over the identified taxpayers and inadequate control measures of fighting corruptions and embezzlements in branch office administration system

Concerning the VAT law and regulation the study concluded that average respondents believe there is weakness on it.in terms of tax law complexity its hard to comply with the tax laws as they are complicated and the respondents feel there is a lot that can be done on the tax system to ease the work of preparation of tax returns and payment. This study findings are congruent with findings of King'ona (2016) findings the results provide

evidence indicating that Value Added Tax compliance cost is a major factor considered by taxpayers whether to comply with taxation laws.

The study concludes that the respondents had average level of understanding and knowledge on VAT compliance. If the branch office can simplify the tax system, make readily available the tax information give appropriate feedback to questions raised in good time and simplify the technical language used in the tax Acts, then this will positively contribute in raising the Vat understanding and knowledge. This will make it possible for the taxpayers to comply with VAT laws.

The study findings concluded that in average the respondents had good perception and attitude over VAT compliance. The respondents value the importance of supporting the government through the payment of taxes if the revenue collected is put to proper use and taxpayers can access services funded by taxes collected. In terms of attitude of taxpayers toward payment of taxes to the government it can be concluded that majority of the tax payers had some access to the public utilities financed by taxes while at the same time valued the payment of taxes to the government. This factor can be exploited to improve income tax compliance. Proper utilization of collected revenue by the government will motivate taxpayers to voluntary comply. If taxpayers perceive the government as corrupt or not utilizing collected revenue well, they might feel betrayed and attempt to evade. The study findings in line with King'ona (2016) conclude that taxpayer perception and attitudes has a significant effect on tax compliance.

5.3 Recommendations

The establishment of factors influencing VAT compliance is of great concern for the VAT registered tax payers. The study findings will facilitate the management of the tax payers to effectively deal with all those factors that contributes to noncompliance.

- Proper tax understanding tax systems encourages voluntary compliance. Better understanding of the tax systems and consequences for non-compliance, will influence tax payers to comply since they will keep proper records in order to avoid fines and penalties. They will reduce reliance on external professional.
- To create more awareness and knowledge among the taxpayers and those who are still not registered, the following should be considered; A multi-media approach to sensitization should be adopted to get taxpayers informed. Administrators should mainly communicate through meetings, seminars, radio programs, televisions, taxpayer visits and posters should as well be used to reach all eligible taxpayers and get them to appreciate the importance of VAT and been registered under the VAT law.
- During our research complaints about skilled manpower was a common denominator amongst the taxpayers, so that management body of the office should recruit skilled manpower in the area especially who are assigned in tax auditing. Continuous trainings and workshops should be perpetuated to enhance the staffs with the new ways of handing challenges.
- The management of the branch office should prepare or design a reward for those business people who are performing highest VAT collection during the fiscal year. The reward can be certificate or lump sum amount of money.
- The management body of the branch office should work on awareness creation to the general public on the importance of VAT payment for the economic development of their area. This can be done by distributing informative brochures and posters in relation to the issue.
- Tax payers should try to solve their problems with branch office through discussion and agreement.
- Initiate consumer to request VAT invoice through awareness programs.

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APPENDIX

St. Mary's University
School of Graduate Studies
Department of General Business Administration
To be filled by the Taxpayers of branch office

Dear respondent,

The objective of this Questionnaire is to gather firsthand information that will help to study the **Assessment of VAT compliance factors** in the case of Addis Ababa no2 medium tax payers' branch office. This study is under taken as a partial requirement for the completion of Masters of Business Administration.

All data and information that will be gathered through this Questionnaire will be used for the sole purpose of the research and remains confidential. Therefore, you are kindly requested to respond to the questions with utmost good faith, freely and to the best of your knowledge. There is no need to write your name on the Questionnaire.

I thank you in advance for your cooperation.

Section I, Demographic profile of the respondent

1, gender

Male female

2, age

25-30 31-35 36-40 40-45
above 46

3, educational level

TVET Diploma Degree Master

4, position in the business

Owners finance manager accountant

Auditor managing director other

Section II, the questionnaire item (questions)

Administrative capacity	SA	A	N	DA	SDA
The branch office has adequate manpower.					
The branch office staffs technically competent in executing their duties and responsibilities.					
The methods used by the branch office to identify taxpayers adequate.					
There is close follow-up and supervision by branch office over the identified taxpayers.					
There are strong control measures of fighting corruptions and embezzlements in branch office administration system.					
VAT law and regulation					
The registration threshold for branch office is high.					
VAT Exemptions is perpetuated.					
I find it hard to comply with the tax laws as they are complicated					
The tax system in place motivates me to voluntarily comply with my tax obligations.					
I feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment.					
VAT system (Tax is not easy to understand)					
Understanding and knowledge					
Conflicting information from different sources.					
Long queues in gaining access to branch office.					
Technical details on brochures and tax Acts that I don't understand.					
Delay in receiving feedback on queries raised.					
Required information not readily available.					
Branch office has put in place enough measures to ensure that taxpayers know of their obligations and reparations of noncompliance.					
Compliance cost					
High fees charged for hiring professionals on services					
Higher cost of taking training					

Higher cost of book keeping					
Higher cost for consulting accountant and other professionals on the area of VAT					
Perception and awareness					
I do gain access to the public utilities and services funded by the taxes collected.					
I do gain access to the public utilities and services funded by the taxes collected.					
I see no point of paying taxes when it is being misused by individuals in government.					
The tax system in place motivates me to voluntarily comply with my tax obligations.					
I value the payment of taxes to the government					
I believe it's my obligation as a citizen to support the government by paying taxes					
Revenue performance of VAT collection					
administrative bottle neck influence VAT collection performance					
Compliance cost challenges the VAT collection performance					
Perception and awareness of tax payers influence VAT collection					
Understanding and knowledge of tax payers VAT collection					
VAT law and regulation influence VAT collection performance					

Endorsement

This thesis has been submitted to St. Mary's University College, School of Graduate Studies for examination with my approval as a university advisor.

Ass. Pro. Asmamaw Getie

Advisor

Signature

St. Mary's University College, Addis Ababa

January, 2018